Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Presubscribed Interexchange Carrier Charges	)	CC Docket No. 02-53
	)	

DECLARATION OF THOMAS J. MAKAREWICZ

My name is Thomas J. Makarewicz. I am a Director of Cost Analysis for SBC Services, Inc. In this capacity, I supervise the development of cost studies and modeling, and testify to SBC's cost studies in both state and federal regulatory proceedings. I have been directly involved in developing SBC's Presubscribed Interexchange Carrier ("PIC") change cost studies at issue in the instant proceeding.

In 1988, I joined Southwestern Bell Telephone Company ("SWBT') as a regulatory economist, responsible for economic modeling of state and federal regulatory issues, including Universal Service, access reform and rate re-balancing. From 1992 through 1993, I worked at SBC as a Demand Analyst, developing econometric models for SBC market research initiatives. In 1994, I returned to SWBT as a financial analyst and market planner in wholesale marketing, concentrating on access reform and pricing issues. In late 1997, I joined the Cost Analysis group, where I helped develop the economic methodologies upon which retail and wholesale cost studies are based. In 1999, while at Cost Analysis, I was responsible for developing cost studies for switching, signaling and features, and presented retail and wholesale cost studies in state regulatory proceedings. I was appointed to my current position in July 2001. During my career with SBC, I have published three articles on telecommunications costing and pricing, and have testified and/or filed testimony before the state commissions of Arkansas, California,

Connecticut, Indiana, Kansas, Michigan, Missouri, Oklahoma, Texas, and Wisconsin, as well as before the FCC as part of SBC's 271 applications. I earned Bachelors degrees in Economics and Philosophy from Rockhurst College in 1982, and received a Masters degree in Economics from St. Louis University in 1986.

The purpose of this declaration is to address the fifty percent discount rule adopted in the Commission's Report and Order, *In the Matter of Pre-Subscribed Interexchange Carrier Charges,* CC Docket No. 02-53, FCC 05-32 (rel. Feb. 17, 2005) ("Order"). This declaration will demonstrate that application of that rule to SBC's PIC rates when SBC performs a PIC and intraLATA PIC ("LPIC") change at the same time will preclude SBC from recovering its costs.

The Commission established safe harbor rates of $5.50 for stand-alone manual PIC changes and $1.25 for stand-alone mechanized PIC changes. If a company's actual costs for PIC change exceed the safe harbor rates, that company is allowed to submit cost studies for review by the Commission to allow for the possibility of establishing rates above the safe harbor values. (¶ 18) Additionally, the Order requires that, when a customer simultaneously changes both the PIC and the LPIC, LECs are required to reduce the stand-alone PIC charges – both manual and mechanized – by fifty percent. Specifically, the Order states:

> "For purposes of the federally-tariffed PIC change charge, when customers change their PICs in conjunction with changing their LPICs, incumbent LECs should assess half of the applicable federally-tariffed PIC change charge. Carriers may recover their remaining costs through the state-tariffed LPIC change charges." (¶ 21)

As rationale for the fifty percent discount, the Commission refers to the comments of two ILECs – one being SBC – concluding that when PIC and LPIC changes are ordered simultaneously, the costs are equal to the costs of a single change. (¶ 21) The Commission's conclusion on this point is not correct and the remainder of this declaration describes why.

First, SBC filed an ex parte on March 15, 2005 explaining that, in its Reply Comments of June 28, 2004, SBC had inadvertently misstated its reference to California PIC and LPIC change rates. In California, when a customer orders a PIC and LPIC change together, SBC currently charges $5.26 for the PIC and $2.49 for the LPIC. The California PIC change charge is not reduced by half when PIC and LPIC changes are requested simultaneously. More generally, referring to current PIC and LPIC rates to render conclusions about associated costs is faulty because *current* PIC and LPIC rates were not set based on costs, and the rate applications do not necessarily reflect how costs are incurred. Results of rate applications of PIC and LPIC rates are all over the map when PIC and LPIC changes are requested simultaneously. Some states charge the same for the LPIC as the PIC when both are ordered at the same time. Other states charge no LPIC rate. Still other states charge a reduced LPIC rate. Given this disparate rate application, current PIC and LPIC rates cannot and do not reflect underlying costs.

Second, the Commission apparently has failed to understand that SBC's cost studies already reflect efficiencies gained when PIC and LPIC changes are ordered simultaneously. SBC's cost studies produced rates generally in the range of the safe harbor rates for manual and mechanized PIC changes. Specifically, SBC's cost studies explicitly factor in as an input the average number of requests per PIC change order.[1] The request-per-order input determines the volume-sensitive costs of processing PIC change orders which are the clear majority of costs for manual PIC changes. SBC's cost studies show that for the Consumer segment (which constitutes about 90 percent of all carrier change orders), the number of requests per order range from a low of 1.90 in California[2] to a high of 2.04 in Indiana.[3] This range indicates that with virtually every

[1] Requests per PIC change order greater than 1.0 indicate that the customer requests multiple carrier changes on the same order, typically an LPIC change along with the PIC change.

[2] Actually, Connecticut had the lowest number of requests per order at 1.4, but the metric came from a different data source than the other 12 SBC states and may not be fully comparable.

PIC order, customers in the Consumer market segment request more than one carrier change on the same order, typically changing the PIC and LPIC simultaneously. Mechanically, SBC's studies multiply the per unit (or volume-sensitive) PIC / LPIC change cost by the reciprocal of the request-per-order input. This, essentially, has the effect of cutting the per unit PIC change cost in *half*.[4] The fact that SBC applied the actual request-per-order factor demonstrates that SBC's cost results 1) reflect all instances when PICs and LPICs are changed together, and 2) capture the attendant cost efficiencies. Therefore, applying a discount to rates derived from SBC's cost studies – ostensibly to capture cost savings of processing PIC and LPIC changes simultaneously – actually *double counts* the same cost efficiencies, thereby grossly understating the appropriate PIC rate.

The impact of cost efficiencies from PIC / LPIC combined changes is most evident when comparing the PIC / LPIC combination cost to the cost of a PIC (or LPIC) change made in isolation. SBC has calculated the cost of a stand-alone PIC change by adapting its filed PIC change studies which, again, measure the cost of PIC / LPIC change combinations. As baseline changes, SBC revised PIC change studies filed in November 2004 to eliminate third party verification (TPV) costs and PIC freeze costs, as directed in the Order. Second, SBC updated the PIC and LPIC volumes used in its filed cost studies with *actual* volumes for all of 2004 which were estimated when the studies were originally filed. Third, SBC added certain Information Technology (IT) costs it must incur to implement the manual / mechanized rate bifurcation and rate discount provisions of the Order. These revisions produce manual and mechanized rates for

[3] The number of requests per order can exceed 2.0 because on the same order customers can change both PIC and LPIC on the same line, and make additional carrier changes to their second line.

[4] SBC also incurs systems-related support costs to enable the processing of both PIC and LPIC changes. The non-volume sensitive costs associated with support systems are expressed in the studies as aggregate dollars, and are divided by PIC and LPIC total volumes assigning those fixed support costs to both PIC and LPIC changes.

PIC / LPIC change combinations.[5] The rates in SBC's studies are expressed as "cost per change." That means that the rate (and underlying cost) are applicable to the PIC change and separately to the LPIC change. The results for representative states from three SBC regions appear in the following table.

TABLE 1
PIC / LPIC Combination Rates per Change

	SBC Southwest (Texas)	*SBC West (California)*	*SBC Midwest (Illinois)*
Manual, per change	$4.66[6]	$4.15	$4.34
Mechanized, per change	$1.83[7]	$1.82	$1.30

In order to calculate the cost of a stand-alone PIC, SBC made one fundamental change to the baseline studies described above: it set the request-per-order factors in all states to 1.0 (this factor had been close to 2.0 in the PIC / LPIC combination studies). Again, the request-per-order factors determine the volume-sensitive, per unit cost of processing PIC changes. Setting the request-per-order input to 1.0 means that all PIC orders request a PIC change only, with no simultaneous changes to LPIC or additional PICs. In other words, this input change attributes the volume-sensitive cost of all work activities required to process PIC changes to PIC change orders alone, with no attribution of these costs to LPIC changes.[8] The results of stand-alone PIC rates for representative states from three SBC regions appear in the following table, and are compared to the same rates for PIC / LPIC combinations depicted in Table 1.

[5] No change was made to SBC's 32.17% overhead factor used to mark-up the direct cost to calculate the PIC change rate.

[6] Texas rate in Table 1 is for the manual PIC/LPIC changes to the primary line. Manual PIC/LPIC changes to an additional line = $2.59.

[7] Texas rate in Table 1 is for the mechanized PIC/LPIC changes to the primary line. Mechanized PIC/LPIC changes to an additional line = $1.83.

[8] The non-volume sensitive costs associated with support systems continue to be divided by PIC and LPIC total volumes assigning so that the total amount of systems and support costs are not assigned exclusively to PIC changes (which would run counter to reality).

TABLE 2 **Stand-Alone PIC rates compared to PIC / LPIC Combination Rates per Change**			
	SBC Southwest (Texas)	*SBC West (California)*	*SBC Midwest (Illinois)*
STAND-ALONE PIC:			
Manual, per change	$7.37[9]	$7.35	$7.57
Mechanized, per change	$1.83[10]	$1.82	$1.30
PIC/LPIC COMBINATION:			
Manual, per change (Total)	$4.66[11] ($9.32)	$4.15 ($8.30)	$4.34 ($8.68)
Mechanized, per change (Total)	$1.83[12] ($3.66)	$1.82 ($3.64)	$1.30 ($2.60)

The results in Table 2 show that the cost of processing a PIC and LPIC change in combination are higher than the cost of a stand-alone PIC. This is true for both manual and mechanized PIC changes in all SBC regions. For example, the manual rate for a combined PIC / LPIC in California is $4.15 for the PIC another $4.15 for the LPIC, or a total of $8.30. In contrast, the manual stand-alone PIC rate is $7.35, notably lower. Similarly, for electronically processed orders, the total cost of PIC / LPIC combinations exceeds the cost of processing a stand-alone PIC. In fact, the cost *per change* for electronically processed orders is the same whether the PIC change is ordered singly or in combination with LPIC. Therefore the total cost of a PIC / LPIC combination is double that of a single PIC change. For example, the mechanized combined PIC / LPIC rate in California is $1.82 each for the PIC change and the LPIC change,

[9] Texas rate in Table 2 is for the manual stand-alone PIC changes to the primary line. Manual Stand-alone PIC changes to an additional line = $3.38.

[10] Texas rate in Table 2 is for the mechanized stand-alone PIC changes to the primary line. Mechanized Stand-alone PIC changes to an additional line = $1.83.

[11] Texas rate in Table 2 is for the manual PIC/LPIC changes to the primary line. Manual PIC/LPIC changes to an additional line = $2.59.

[12] Texas rate in Table 2 is for the mechanized PIC/LPIC changes to the primary line. Mechanized PIC/LPIC changes to an additional line = $1.83.

or a total of $3.64. The mechanized stand-alone cost is half the total ($1.82) because only one change is involved. Thus, the figures in Table 2 demonstrate that it is more costly to process a PIC and LPIC change together than it is to process a PIC change alone.

This concludes my declaration.

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I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge.

Executed on April 1, 2005.

Thomas J. Makarewicz
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SBC Services, Inc.